

MEETING OF THE  
NATIONAL PETROLEUM COUNCIL

Dolly Madison Room  
The Madison Hotel  
15th and M Streets, N.W.  
Washington, D.C.

Wednesday,  
December 1, 1982

REPORTER'S TRANSCRIPT

Reported by: Ron Meeks

MOFFITT REPORTING ASSOCIATES

2849 Lafayette Avenue  
Washington, D.C. 20020

1 Committee Chiarmen:

Mr. John F. Bookout

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Approximately 26 members of the public were in attendance.

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P R O C E E D I N G S

(9:05 a.m.)

MR. BOOKOUT: Good morning. Would the meeting please come to order. I would like to welcome you to the eighty-fourth meeting of the National Petroleum Council, and express my appreciation for the effort you made to be with us this morning.

You have before you a copy of this morning's agenda. The first item of business is the calling of the roll. However, if there is no objection, I would like to suggest that we dispense with that and use the roster at the door as the official roster of attendance. And, therefore, in case you did not sign that roster, we would hope you would do so before departing.

Now I would like to introduce those here at the head table. On my far left, of course, is Robert Mosbacher. He's Vice Chairman of the Council. Next is Ralph Bailey, Chairman of the Committee of Enhanced Oil Recovery. And on my immediate left is John Swearingen, Chairman of the Third World Petroleum Development Committee. On my far right, of course, is Marshall Nichols, our Executive Director of the Council. The next is the Honorable Jan Mares, Acting Undersecretary of Energy. And on my immediate right is the Deputy Secretary of Energy, the Honorable W. Kenneth Davis.

Now Secretary Hodel had planned to be here this morning to address the group. He had to decline. He has, I think we would all agree, more important business this morning since he faces Senate confirmation hearings, which are

1 scheduled for 10:00 a.m.

2           However, we are very pleased that Deputy Secretary  
3 Davis was able to change his schedule and be with us this  
4 morning. I know that most of you are well acquainted with Mr.  
5 Davis. He's held many high level positions in both industry  
6 and government. Secretary Davis has served as the second  
7 highest ranking executive of the Department of Energy since  
8 May of 1981, and works closely with the Secretary in directing  
9 all of the Department activities and programs.

10           He joined the Federal Government in 1954 when he was  
11 named Director of Reactor Development of the U.S. Atomic  
12 Energy Commission. Mr. Davis received B.S. and M.S. degrees  
13 in chemical engineering from MIT. And he served on that  
14 faculty. He also held the title of Adjunct Professor of  
15 Engineering and Applied Science at the University of California  
16 at Los Angeles.

17           He is the immediate past President of the American  
18 Institute of Chemical Engineering, and Vice Chairman of the  
19 U.S. National Committee of the World Energy Conference. And  
20 he serves as the Vice President of the National Academy of  
21 Engineering.

22           Now the Secretary has some introductions and remarks  
23 for us at this time. Ladies, and gentlemen, the Honorable  
24 Ken Davis, Deputy Secretary of Energy.

25           (Applause)

          Mr. Davis. Well, thank you, John, for the very  
generous introduction.

          As you mentioned, Secretary Hodel -- in fact, when

1 I went down to the garage to come here, why he was getting  
2 into his car to go up to the Hill for his little ceremony this  
3 morning. So I am sure you all join me in wishing him the best  
4 of luck today. I think he is going to get by the confirmation  
5 hearings very handily, but it is always sort of an ordeal.  
6 And he seemed in good spirits as he left so I hope when I get  
7 back we may find he has gone through the hearings this morning.

8 But it certainly does take precedence. And I know  
9 otherwise he was very anxious to be here because he is very  
10 much aware of the activities of the National Petroleum Council,  
11 and very much interested in the work that you are doing and the  
12 reports that you are going to present.

13 Certainly, Don and I and the others in the Depart-  
14 ment are very much aware of the role played by the National  
15 Petroleum Council in advising the Department of Energy, and  
16 through it, the Administration, on key policy issues involving  
17 petroleum and the petroleum industry, both from the domestic  
18 and the international point of view.

19 We are all acutely aware that petroleum accounts for  
20 more than 40 percent of our total energy use in the United  
21 States, and that U.S. production continues to outrun the dis-  
22 coveries by a wide amount. With reserves declining at a lower  
23 rate, we could do reevaluations of existing reserves, but there  
24 is still a very considerable gap between the discoveries and  
25 production.

26 This is certainly not a situation which calls for  
27 complacency, and your advice and counsel are certainly very  
28 important to the country.

1           The National Petroleum Council has had a long and  
2 influential history in providing advice to the U.S. Government.  
3 Formed in 1946 by the Secretary of the Interior at the request  
4 of President Harry Truman, and was then transferred to the  
5 Department of Energy when it was formed in 1977.

6           As you know, there is a further change which is  
7 being proposed. What we would call a merger of the Department  
8 of Energy with the Department of Commerce, with a few of the  
9 functions of the Department of Energy being transferred to  
10 other agencies.

11           Legislation to bring this about was introduced into  
12 the Congress this year, and likely will be introduced to the  
13 new Congress since it is certainly not one of the key items  
14 for the present lame duck session.

15           Secretary Edwards went a long way toward the goal  
16 of this merger or this change in the format of the Department  
17 of Energy in deregulating oil, substantially reducing other  
18 forms of regulation, reducing unneeded and ineffective pro-  
19 grams, and in focusing the Department of Energy in appropriate  
20 areas of energy research and development, with emphasis on  
21 the all important and expanding weapons program. Many people  
22 tend to forget that a real large part of our programs is  
23 associated with the defense programs and the development and  
24 testing and production of nuclear weapons.

25           Substantial reductions have been made in budgets  
and in personnel. And, of course, the Administration, as well  
as the Department of Energy, has been stressing a return to  
the free operation of market forces. And that has been and

1 continues to be our goal.

2           The proposed merger with the Department of Commerce  
3 seems very logical and a useful combination of two departments  
4 with similar missions, and would provide the degree of repre-  
5 sentation needed at the Cabinet level. After all, energy is  
6 not a single thing, except perhaps in terms of dynamics, but  
7 instead is a wide spectrum of commodities produced, handled  
8 and consumed, with the appropriate transactions occurring in  
9 both domestic and international marketplaces.

10           It is interesting to note that of the 21 inter-  
11 national energy agency countries only four have separate  
12 ministries of energy. The rest handle their energy policies  
13 and energy matters in combination with other activities --  
14 industry, trade, economics and so forth.

15           I would now like to have the pleasure of introducing  
16 the 12 new members of the National Petroleum Council appointed  
17 by Secretary Edwards, all of whom bring valuable, distinctive,  
18 and varied experience to this organization. I will indicate  
19 their positions to provide some idea of their expertise, but  
20 remind you that they serve as individuals; not as representa-  
21 tives of their organizations.

22           I believe that 10 of the 12 are here today. I will  
23 call out all of the names. I would appreciate it if those  
24 who are here would stand, and perhaps we will welcome you at  
25 the end of my introductions.

26           First is Mr. J.D. Allen, Chief Executive Officer  
27 of J.D. Allen Industries. I don't believe he is here today.  
28 If he is, would he stand up? I guess not.

1 Second, Glenn P. Anderson, President, Andover  
2 Corporation. He should be here.

3 Alfred J. Coyle, Senior Vice President of Blyth,  
4 Eastman, Paine, Webber, Incorporated.

5 James J. Foster, founder and President of Venture  
6 Trading Company, Incorporated.

7 William Lee Hanley, Junior, Chairman of the Board,  
8 and Chief Executive Officer of Hanley, Incorporated.

9 C. M. (Mac) McLean, petroleum geologist.

10 Straton C. Podaras, President, Equitable Petroleum  
11 Corporation. Would you stand please? Thank you.

12 Henry F. Pohlmann, Pohlmann and Associates.

13 Weldon H. Smith, President, Oil Well Drilling  
14 Company.

15 Paul C. Teas, Junior, petroleum geologist. I  
16 believe he is not here.

17 Clifford W. Trice, independent oil operator.

18 Robert W. West, Junior, Chairman of the Board and  
19 Chief Executive Officer of Tesoro Petroleum Corporation.

20 Those are our 12 new members. And I wish you would  
21 join me in welcoming them here.

22 (Applause)

23 By way of conclusion I might say that we are very  
24 much interested in the National Petroleum Council studies to  
25 be discussed today, and particularly the draft final report on  
Third World Petroleum Development, which was requested by  
Secretary Edwards who has had a deep personal interest in the  
subject, as one way of not only increasing world oil reserves,



1 but also as a practical way of improving the economies and  
2 living standards of the developing countries.

3 I know the results will be of interest to us, and  
4 also to the Treasury and State Departments, as well as the  
5 World Bank. And we will share your report with them, as well  
6 as with other interested government departments.

7 Also we are very much interested in the studies on  
8 enhanced oil recovery, which we hope will show how we can get  
9 even more oil out of the present and future fields, as well  
10 as the study on inventory levels required to operate the  
11 system, which will give us a better understanding of the  
12 minimum inventory levels needed as the overall thru-put and  
13 other characteristics of the overall oil handling and process-  
14 ing system changes.

15 The formulation of national energy policies requires  
16 accurate data, realistic choices, and sound judgment. Many  
17 of the decisions that have to be made are painful. The  
18 National Petroleum Council, with its long history of advice  
19 on leadership, combined with enormous collective expertise, is  
20 in a good position to help point the way to the right choices.  
21 Although we may not always accept all of the advice offered,  
22 we, in the Department of Energy, appreciate your continuing  
23 support and advice, and wish you the best of success in this  
24 meeting.

25 Thank you very much, John.

(Applause)

MR. BOOKOUT: Thank you, Ken, very much for your  
very kind remarks. And I'm certain that I can pledge the

1 continued support of the National Petroleum Council. He gives  
2 very freely of his time and dedicates very often very valuable  
3 staff assistance to make these studies worthwhile and meaning-  
4 ful.

5 As you will recall, at this meeting last April, the  
6 Council agreed to undertake the two studies just referred to  
7 that were requested by the Secretary of Energy -- enhanced oil  
8 recovery, and third world petroleum development.

9 These committees have been very busy. And the Third  
10 World Committee's proposed final report has been circulated to  
11 the Council membership for their consideration.

12 Chairman John Swearingen will now review for you  
13 his Committee's findings and conclusions. Mr. Swearingen.

14 MR. SWEARINGEN: Thank you very much, Mr. Chairman.

15 On behalf of the Committee on Third World Petroleum  
16 Development, I am pleased to present the report of the Com-  
17 mittee to the Council for your consideration here today.

18 Now since the draft report was mailed to you, we  
19 have received several comments and suggestions from Council  
20 members. Proposed revisions reflecting these comments, which  
21 are consistent with the overall consensus of the Committee,  
22 are included in the information packet which are at your  
23 places this morning. I don't believe any of these are of great  
24 substance or nor do they modify the basic position of the  
25 draft report which was sent to you earlier.

26 The Committee on Third World Petroleum Development  
27 held its first meeting on August 11, 1982. And at this time,  
28 they approved the establishment of a coordinating subcommittee;

1 approved a preliminary outline of the report; and agreed the  
2 final report should be concise, clear and brief. The  
3 coordinating subcommittee was asked to prepare a draft report  
4 for consideration by the Committee on October 29, 1982.

5 Thanks to the hard work of the Committee, the  
6 coordinating subcommittee and the National Petroleum Council  
7 staff, I believe the report I am presenting here today is  
8 responsive to the mandate given to the Committee by the  
9 National Petroleum Council. I am also pleased to note that the  
10 report was completed within the timetable that the Committee  
11 set for this study, and I believe it deserves high marks for  
12 objectivity, clarity, and brevity.

13 I would like to review some of the highlights of the  
14 report that may be of particular interest to the Council.

15 The Committee on Third World Petroleum Development  
16 reached the broad conclusion that efficient development of  
17 petroleum resources in oil importing developing countries,  
18 or as we have termed them -- OIDCs -- can best be expanded  
19 through the cooperative action of private petroleum companies  
20 and host countries. Private petroleum companies have compiled  
21 a long and impressive record of discovering and developing  
22 petroleum resources throughout the world. Over the last  
23 decade, however, U.S. petroleum companies have not been as  
24 active in exploring for petroleum in OIDCs as they have been  
25 in other areas.

26 The Committee believes that this decline in effort  
27 by the U.S. petroleum companies can be largely attributed to  
28 companies' perceptions of increased political and economic

1 risk in many OIDCs, and to hardening of the terms offered by  
2 such countries in petroleum exploration and production con-  
3 tracts. The United States Government has also, through  
4 changes in its tax laws and regulations, made it less attrac-  
5 tive for U.S. petroleum companies to invest in overseas  
6 petroleum ventures.

7 In considering positive measures that could be taken  
8 to help reverse this trend, the Committee on Third World  
9 Petroleum Development concluded that OIDC governments that  
10 desire to attract private petroleum investment must offer  
11 terms that are competitive with those offered by other  
12 countries, and that enable a petroleum company to earn a prof-  
13 it commensurate with its risks and its successes.

14 The Committee recommends, in particular, that OIDC  
15 governments foster a fair and constructive attitude toward  
16 efficient, cooperative, long-term petroleum company operations  
17 in their countries. The foundation for such cordial and pro-  
18 ductive commercial relationships require:

19 Maintaining petroleum contracts in force, without  
20 imposing subsequent unilateral changes in terms;

21 Making and honoring commitments to neutral arbitra-  
22 tion of disputes under international law;

23 Avoiding arbitrary tax and financial policies that  
24 inhibit development and that destroy the attractiveness of  
25 supplemental investment commitments;

And recognizing the need for the petroleum company  
to realize full, fair-market value for its share of any oil  
and gas produced.

1           The Committee endorses the U.S. policy of encour-  
2     aging petroleum exploration and development by private com-  
3     panies. The Committee recommends that the United States  
4     Government bolster this policy by positive actions, including:

5           Modifying tax legislation to encourage petroleum  
6     development throughout the world;

7           Amending the Foreign Sovereign Immunities Act to  
8     open U.S. courts to claims against foreign governments by  
9     U.S. citizens whose property has been illegally expropriated;

10          And resolving the ambiguities and inconsistencies  
11     in U.S. tax and other laws and regulations that pose unwar-  
12     ranted hindrances to U.S. companies operating abroad.

13          Recently a number of international public agencies--  
14     notably, The World Bank--have become directly involved in  
15     developing oil and gas resources in OIDCs. The Committee on  
16     Third World Petroleum Development has concluded that The World  
17     Bank and other international development agencies can provide  
18     an important supplement to private company petroleum invest-  
19     ment when such investment is concentrated on developing the  
20     infrastructure of the OIDC.

21          The Committee recommends that third party public  
22     agency funds should not displace potential private invest-  
23     ments in petroleum exploration, development, or production  
24     activities, but they may have a role in financing downstream  
25     facilities needed to utilize oil and gas within the local mar-  
26     ket.

27          My remarks here, of course, have covered only a  
28     few of the highlights of the Committee's report, and I

1 recommend a full reading of the entire text before drawing  
2 any conclusions on the contents of the report. I should also  
3 note that the Committee on Third World Petroleum Development  
4 intends this report to be a statement of the principles that  
5 would stimulate petroleum exploration and development in  
6 OIDs, and not a comprehensive catalog of all the exceptions  
7 to the rule that might arise.

8 In accordance with the charge given it by the  
9 National Petroleum Council, the Committee on Third World  
10 Petroleum Development made no estimates of the petroleum  
11 resource potential in OIDs; nor did it critique the petro-  
12 leum programs or policies of any specific country.

13 The Committee made no forecast of future energy  
14 supply and demand conditions in OIDs; nor did it compile  
15 statistics on existing petroleum investment in such countries.  
16 Moreover, no attempt was made to quantify, either in financial  
17 or petroleum supply terms, the impact of implementing the  
18 recommendations contained in the Committee's report.

19 Many of the Committee's views expressed in this  
20 report are in the form of expert opinions. By the very nature  
21 of the study, it was impossible to buttress many of the state-  
22 ments with extensive statistical data or scientific evidence.

23 However, the Committee benefited from a variety of  
24 contributions of experts who were marshalled to assist in the  
25 preparation of the study, not all of whom gave unqualified  
endorsement to every single statement in the report, but in  
the end agreed to moderate their opinions to the point of  
recommending the entire report to the National Petroleum

1 Council for its approval.

2 The Committee drew upon representatives of the De-  
3 partment of Energy, and experts from academia, public account-  
4 ing firms, and consulting and research organizations. Private  
5 petroleum industry personnel working in areas of exploration,  
6 production, finance, law, economics, and management brought  
7 hundreds of man-years of experience in international petroleum  
8 activities to this study.

9 As I'm sure you won't be surprised to hear, the very  
10 capable staff of the National Petroleum Council did a superb  
11 job in coordinating the entire study.

12 Finally, I wish to acknowledge the enterprise and  
13 devotion of my deputy, Mr. John W. Elias, Executive Vice Presi-  
14 dent of Amoco Production Company, who through persuasion, hard  
15 work, and the assistance of his staff was able to pull this  
16 report together in record time. For those of you who don't  
17 know him, I'd like to introduce John Elias to you. Please  
18 stand, John.

19 The NPC Committee on Third World Petroleum Develop-  
20 ment believes that development of the petroleum potential of  
21 OIDs by private companies is in the best interest of the  
22 OIDs, the United States, and the rest of the free world.

23 Mr. Chairman, the Committee recommends that the  
24 draft report, as modified by the revisions distributed this  
25 morning, be approved by the National Petroleum Council, sub-  
ject to final editing. And I so move.

26 Thank you so much.

27 MR. BOOKOUT: Thank you very much, John. I have a

1 motion to adopt the draft report of the Committee on Third  
2 World Petroleum Development. Do I have a second?

3 VOICE: I second the motion.

4 MR. BOOKOUT: Okay. Is there any discussion?

5 (No response)

6 MR. BOOKOUT: There being no discussion, we will  
7 vote on the adoption of the report. Will all of those in  
8 favor of the report please indicate so by saying "aye"?

9 (Chorus of "ayes")

10 MR. BOOKOUT: Those opposed.

11 (No response)

12 MR. BOOKOUT: Thank you very much.

13 John, I want to express the Council's appreciation  
14 to you, and my personal appreciation for the efforts that you  
15 have undertaken here on our behalf, and behalf of the Council.  
16 And we are all very much aware of the fact that John has given  
17 very unselfishly of his time in many, many industry endeavors.  
18 And I want to tell you I was very pleased when I went to that  
19 well one more time, and he said he would.

20 (Applause)

21 MR. BOOKOUT: We would also like to, of course,  
22 thank your Committee and your subcommittee. And as you made  
23 reference, this, obviously, was done in record time.  
24 August the 11th was the first meeting. It's a very difficult  
25 task that they undertook, and I think achieved what was the  
purpose of our studies are intended to achieve, and that is  
a consensus position. It can only be useful to those who  
wish to use it if it does represent a consensus view. And



1 they did achieve this on a very difficult subject. And we are  
 2 most appreciative of that. And I'm certain that this report  
 3 will prove valuable to policy makers both here and abroad in  
 4 jointly trying to achieve the goal of increased petroleum  
 development in third world countries.

5 Now the next report will be given by Chairman Ralph  
 6 Bailey. His committee, also, has been very hard at work in  
 7 organizing to try to undertake an updating of the enhanced oil  
 8 recovery report that was done a while back.

9 Mr. Bailey.

10 MR. BAILEY: Thank you, Mr. Chairman.

11 As John has already said, earlier this year Secretary  
 12 Edwards requested the NPC to undertake a new study of enhanced  
 13 oil recovery, which is really an update of the 1976 study.  
 14 *The Council was asked to*  
~~It was updated~~ <sup>where appropriate and expanded <sup>it</sup> where we</sup>  
~~felt~~ <sup>the 1976 study</sup> necessary.

15 The basis for requesting the new study were the  
 16 changes in technology and economics on enhanced oil recovery  
 17 that had occurred since the 1976 report was completed. The  
 18 1976 EOR study was a comprehensive, far-reaching analysis of  
 19 EOR potential in the United States, which focused on the pro-  
 20 cesses by which recovery from existing reservoirs might be  
 improved.

21 At our last meeting, the Council agreed to undertake  
 22 the study. And the Committee on Enhanced Oil Recovery was  
 23 established to assist the Council in responding to the Secre-  
 24 tary's request.

25 Our Committee is charged with conducting the new

1 study, and preparing a report for submission to the entire  
2 Council for its consideration. To determine the degree of  
3 update needed and the scope of the new study, we reviewed the  
4 1976 report in light of today's technology and the change of  
5 economic factors.

6 In the intervening six years, there have been ex-  
7 tensions of the technology that will affect the U.S. enhanced  
8 oil recovery potential in terms of recovery rates and costs.  
9 While basic processes have not changed drastically, there are  
10 strong indications that the focus is changing such that the  
11 mix of basic processes that will be applied may be signifi-  
12 cantly different than that shown in the 1976 study. Also,  
13 the regulatory and tax changes that have occurred will alter  
14 the 1976 projected costs and economics significantly.

15 The Committee met in October, and we agreed that the  
16 '76 study is outdated. And, further, that a review and rework  
17 of all parts of the original study is required. And this  
18 action then sets the scope of the new study to be essentially  
19 the same as the '76 study.

20 We also established the following organization  
21 structure to assist in carrying out the study: A coordinating  
22 subcommittee, and four task groups covering major categories  
23 of study effort.

24 There are three process task groups: Chemical,  
25 miscible displacement, and thermal. And a cost and economics  
task group. And I am pleased to note the outstanding  
effort that we have received from the other Council members  
as we have staffed these study groups.

1           The coordinating subcommittee will function as the  
2 coordinating and integrating organization, assuring that task  
3 groups are fully staffed to conduct detailed analyses and  
4 compile results of various aspects of the overall study;  
5 that task group's objective and assignments are defined with  
6 study results formatted so as to provide for complete report-  
7 ing; that task group activities and interfaces are coordinated as  
8 needed to satisfy integration of the analysis and permit  
9 appropriate reporting; that task group activities are timely  
10 and will lead to producing a comprehensive report; and,  
11 finally, that drafts of the EOR updated reports are prepared  
for approval by the Committee on enhanced oil recovery.

12           The Chemical, Miscible Displacement and Thermal  
13 Task Groups, together with the coordinating subcommittee, are  
14 responsible for reviewing and defining a data base of existing  
15 reservoirs and applicable screening procedures. These  
16 processed task groups are also responsible for evaluating  
17 reservoirs, recovery rate, and developing programs together with  
process-specific cost schedules.

18           In conducting these tasks, the groups will be aided  
19 by the coordinating subcommittee in reconciling conflicts as  
20 they may arise. They also will qualify and render judgment  
21 on material supply, environmental and safety constraints as  
22 well as process weaknesses, and the need for further research  
and development.

23           In so doing, the groups will provide a sensitivity  
24 measure of process application and recovery ranges.

25           The Costs and Economics Task Group is responsible

1 for defining the economic basis and framework of estimating  
2 enhanced oil recovery under several economic situations. In  
3 addition, this task group will assist the other groups by  
4 compiling the non-process specific costs, coordinating timing,  
5 and defining a uniform economic model to be used for evaluating  
6 individual reservoirs and cases. In addition, the task group,  
7 with the assistance of the process task groups, will compile  
8 and extrapolate the individual reservoir evaluations to a  
9 national aggregate, to include reserves, recovery rates, and  
10 economics.

11 And as this is a progress report, I am pleased to  
12 note that much has already been accomplished in the month and  
13 a half since the Committee's organizational meeting. We are  
14 also most appreciative of the significant support that the  
15 Department of Energy has been lending to this study effort.

16 The coordinating subcommittee has begun assembling  
17 and reviewing a data base for inclusion in the study. And  
18 this data base, made available through the Department of  
19 Energy's Bartlesville Energy Technology Center, contains  
20 basic data for over 2,400 reservoirs that may be amenable to  
21 enhanced oil recovery processes.

22 Now this amounts to over 50 percent of the U.S. oil  
23 in place. And could be as high as 65 percent. And by con-  
24 trast, the 1976 study examined only 245 reservoirs, covering  
25 approximately 30 percent of the oil in place.

In short, the Committee and the task groups will  
have available for their use the most comprehensive data base  
ever used in an analysis of enhanced oil recovery potential.

1           The process task groups will soon begin reviewing  
2 and calibrating the process models also being made available  
3 by the Department. And once this step is completed and the  
4 data base is assembled and revised, each process task group  
5 will begin computer runs for all reservoirs to which that  
6 process is applicable. The results of the task groups'  
7 analyses will then be integrated, the economic cases run, and  
8 initial reports will be drafted.

9           The proposed schedule for the EOR study calls for  
10 various meetings and work sessions of the subcommittee, and  
11 the various task groups, throughout the winter and the spring,  
12 and into the summer of next year. The Committee will meet in  
13 May of next year to review the progress of the coordinating  
14 committee and the task groups, and then we will meet again, if  
15 we can keep on schedule, in October of next year to consider  
16 a final report for submission to the Council.

17           So, Mr. Chairman, I think things are moving along  
18 very well, and we look forward to being able in the fall of  
19 next year to present a complete new analysis of enhanced oil  
20 recovery to the Council.

21           MR. BOOKOUT: Thank you very much, Ralph. And  
22 although this is a progress report, it requires no formal  
23 action on the part of the membership. But I am sure  
24 Chairman Bailey would be most pleased to receive any questions,  
25 suggestions or clarification that might be in order at this  
time.

(No response)

MR. BOOKOUT: Fine. Ralph, it looks like everyone

1 agrees with the approach. We will all look forward to the  
2 final document.

3 We should turn our attention now to some administra-  
4 tive matters. The first such matter is to receive a report  
5 from the Agenda Committee. A.V. Jones is Chairman of that  
6 Committee, and he will now present to you his Committee's  
7 recommendations.

8 A.V.

9 MR. JONES: By letter dated November the 3rd, 1982,  
10 the Secretary of Energy requested the National Petroleum  
11 Council to update the inventory and storage volume of its 1979  
12 report entitled "Petroleum Storage and Transportation  
13 Capacities." The letter request, a copy of which is attached  
14 to the agenda that you people have, specifies that your new  
15 study should update the analysis of the minimum operating  
16 levels for crude oil, motor gasoline, distillate fuel oil, and  
17 residual oil, as well as update the estimates of total storage  
18 capacity and the quantity of crude oil and refined products  
19 available for use. Other aspects of the overall U.S. petro-  
20 leum inventory and storage system should be discussed as  
21 appropriate.

22 Pursuant to Section 7-1 of the Articles of Organiza-  
23 tion of the Council, this request was referred to the Agenda  
24 Committee for consideration as to whether the request is  
25 proper and advisable for the Council to undertake. In con-  
sideration of the request, the Committee makes the following  
recommendations:

The 1979 study of inventories and storage capacities

1 was the eighth such report the NPC has prepared since 1948.  
2 These reports have been published in two to seven year inter-  
3 vals, but recently the intervals have been four and five years.

4 The principal objective of the past six reports was  
5 to determine the total storage capacity of the primary distri-  
6 bution system and the amount of petroleum inventory available  
7 in the event of an emergency. In 1974 and 1979, the Council  
8 also estimated the minimum operating inventory -- the level of  
9 petroleum stocks below which spot shortages and runouts would  
occur.

10 The Council's 1979 report was based on 1978 data and  
11 there are a number of significant factors that distinguish  
12 the 1982 petroleum situation from that which existed in 1978:

13 The demand for petroleum products is down, with lit-  
14 tle prospect of a return to earlier projected levels;

15 The historical seasonal swings in inventories have  
16 been reduced;

17 Inventories of crude oil are comfortably high; and  
18 Refining capacity is underutilized.

19 In the spring of this year, inventories of distillate  
20 and residual fuel oils dropped below the Council's 1979 mini-  
21 mum operating inventory estimates and the motor gasoline  
22 stocks dropped almost to their minimum operating inventory.  
23 As a result, there has been a significant amount of public  
24 discussion and questioning regarding the NPC's minimum  
25 operating estimates, despite the flexibility of crude oil  
markets and underutilization of refinery capacity. The Secre-  
tary determined that an update of the 1979 analysis is

1 necessary in that it was based on 1978 data and that the petro-  
2 leum situation has significantly changed since then.

3 Mr. Chairman, the Agenda Committee finds that this  
4 request is proper and advisable for the Council's considera-  
5 tion, and recommends that the Council agree to undertake a  
6 new analysis of inventories and storage.

7 This completes the report of the Agenda Committee,  
8 and I move that it be adopted by the membership of the  
9 National Petroleum Council.

10 MR. BOOKOUT: Thank you.

11 Do we have a second to that motion?

12 VOICE: I second it.

13 MR. BOOKOUT: Thank you very much.

14 All those in favor, would they please indicate by  
15 saying an "aye."

16 (Chorus of "ayes")

17 MR. BOOKOUT: Those opposed.

18 (No response)

19 MR. BOOKOUT: Thank you very much. Of course, as  
20 normal practice, we will be trying to put together a commit-  
21 tee to progress this study, and we know we can count on your  
22 support. I would suggest, and I would ask that any of you  
23 that have a specific interest in this particular study -- it  
24 would be very helpful and useful if you could indicate to  
25 either Mr. Nichols or myself at the end of this meeting. It  
26 would be most helpful.

27 I certainly want to thank each of you for the sup-  
28 port you have given the important study effort<sup>S</sup> of the Council  
29 ^



1 over the past year. Studies such as the third world petroleum  
2 development report which has just been approved today; the  
3 enhanced oil recovery in progress; and the inventory and  
4 storage assignment you just accepted contribute in a very  
5 positive way to the Department's understanding of our industry,  
6 and to continuing the lines of communication between government  
7 and the petroleum industry.

8 Now your financial support of the Council operations  
9 is also a demonstration of your commitment to the Council's  
10 work. The Finance Committee met yesterday to review the  
11 Council's operation budget for 1982 and to project the  
12 financial requirements for the year of 1983. John Phillips,  
13 our very able Chairman of the Finance Committee, will now  
14 present the Committee's report.

15 Mr. Phillips.

16 MR. PHILLIPS: The Finance Committee met yesterday,  
17 and I am happy to report that the financial condition of the  
18 Council is excellent. At our meeting, we reviewed calendar  
19 year 1982 expenditures and receipts and project a sizeable  
20 surplus for the year. This is due in no small part to your  
21 unprecedented response to the request for contributions to  
22 cover the operating expenses of the Council.

23 We then discussed a budget for calendar year 1983.  
24 As a result of this discussion, we recommend a 1983 calendar  
25 year budget in the amount of \$1,675,000.00, which is approxi-  
mately the same size as the '82 number.

This provides funds to complete both the enhanced  
oil recovery and the inventory and storage studies which

1 will be underway in 1983.

2 We also discussed Council members<sup>1</sup> ~~who~~ recommended  
3 contributions. And even though the final decision on this  
4 matter will not be made until our next meeting, it now appears  
5 that we can reduce the 1983-84 contributions for the third  
6 straight year by approximately 10 to 15 percent.

7 Mr. Chairman, I now move that the Council members  
8 approve a calendar year 1983 operating budget in the amount of  
9 \$1,675,000.00, and authorize the Chairman to make such  
10 additional expenditures as may be necessary from the contin-  
11 gency fund.

12 MR. BOOKOUT: Thank you, John. That was a very fine  
13 report.

14 You have heard the motion. I am sure I will have  
15 plenty of seconds today. Does anyone care to second that  
16 motion?

17 VOICE: I second it.

18 MR. BOOKOUT: Thank you very much. Will everyone  
19 indicate in favor of that report by saying "aye"?

20 (Chorus of "ayes")

21 MR. BOOKOUT: Any opposed?

22 (No response)

23 MR. BOOKOUT: Thank you, John, very much. Your  
24 Committee continues to perform miracles in these times by  
25 offering us reductions in the cost, and we appreciate very  
much your efforts and your Committee's efforts in that regard.

The next agenda item marks the passing of a dis-  
tinguished labor leader and Council member, Marty Ward,

1 President, United Association of Journeymen and Apprentice  
2 of the Plumbing and Pipefitting Industry of the United States  
3 and Canada, who died on October 9.

4 Mr. Ward was appointed to the Council in January of  
5 1979. He served on NPC study committees, and for three years  
6 he served as a member of the Finance Committee.

7 Ladies and gentlemen, I propose that we rise for a  
8 moment of silent reflection.

9 (Pause)

10 MR. BOOKOUT: Ladies and gentlemen, this brings us  
11 to the final agenda item for this morning. And I have an  
12 additional subject to mention. I would like each of you to  
13 mark Thursday, May the 19th, 1983 on your calendar as a tenta-  
14 tive date for the next meeting of the Council. We will, of  
15 course, confirm the date with you early next spring.

16 VOICE: What was that? A Thursday?

17 MR. BOOKOUT: That is May 19th, 1983.

18 Now does any Council member have any other matters  
19 to raise at this time? New business or old business?

20 (No response)

21 MR. BOOKOUT: There being no further business, I  
22 would like to announce that in about 10 minutes or as soon as  
23 the room clears, Mr. Swearingen and I will be available to  
24 respond to any questions from the press on the third world  
25 petroleum development report and other Council business.

Do I have a motion for adjournment?

VOICE: So moved.

MR. BOOKOUT: Second?

1 VOICE: Seconded.

2 MR. BOOKOUT: Meeting adjourned. Thank you very  
3 much.

4 (Whereupon, at 10:05 a.m., the meeting was ad-  
5 journed.)

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C E R T I F I C A T E

This is to certify that the foregoing proceedings before the United States Department of Energy National Petroleum Council meeting, Wednesday, December 1, 1982, were held as herein appears and that this is the original transcript thereof.

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WILLIAM J. MOFFITT